



# Audit Division

## Final Report Confidential

Local Housing Trust Fund Program  
Expenditure and Long-Term Monitoring Audit  
of the  
San Diego Housing Commission

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## **Executive Summary**

The Local Housing Trust Fund Program (LHTFP) provides matching one-time grants (dollar-for-dollar) to cities, counties and non-profit organizations for eligible activities of predevelopment, acquisition and construction or rehabilitation project expenditures. The Department of Housing and Community Development (HCD) administers the program and has awarded over \$23 million to 18 grantees through the program.

The program requires HCD to oversee the use of funding awards to ensure the grantees are complying with the program requirements and the program objectives are being met. The first in a series of audits was conducted on the San Diego Housing Commission (SDHC), which received a LHTFP \$2,000,000 award. The SDHC expended the award on three (3) projects: Becky's House II; Sunburst Apartments; and Veteran's Village

The Becky's House II project received \$437,000 and used the funding to acquire and develop a 14 unit facility for women victimized by domestic abuse. The Sunburst Apartments project received \$843,000 and used the funding to acquire and rehabilitate a 24 unit facility of permanent supportive housing for formerly homeless youths between the ages 18 and 24. Lastly, the Veteran's Village project received \$720,000 and used the funding to acquire and develop a 112 bed group residential facility providing housing for homeless military veterans in the early stages of recovery from substance abuse. Each project has rent restriction ranging from 55 to 65 years and tenant income requirements based on a percentage of the average median income (AMI).

The primary areas of review for the LHTFP audit are twofold: Expenditure of Funds and Monitoring. In the Expenditure of Funds area there are two objectives:

1. Determine whether LHTFP expenditures were spent by SDHC on allowable eligible activities in accordance with the HCD Notice of Funding Availability (NOFA) and Standard Agreement (SA); and
2. Perform detailed testing of a representative sample of housing project expenditures from selected grant recipients since the inception of the LHTFP.

The objective of the audit of the long-term monitoring activities is to determine whether tenants are screened for eligibility on a continuous basis each year by the SDHC monitoring and compliance department.

After conducting the audit in accordance with government auditing standards, it can be concluded that the SDHC expended LHTFP funds in accordance with the requirements of the HCD NOFA and SA. In addition, the SDHC long-term monitoring of tenant screening and eligibility of the projects funded by LHTFP funds is adequate to ensure the projects are complying with the requirements of the HCD NOFA and SA.

## Introduction

The LHFTP was established on August 18, 2003 to help finance local housing trust funds dedicated to the creation or preservation of affordable housing in California. Through this program grant funds are provided to eligible public agencies and nonprofit applicants for the development of affordable multifamily rental housing.

Program funding and matching grants are provided to cities, counties and non-profit organizations (grantees) for eligible activities of predevelopment, acquisition and construction or rehabilitation project expenditures. A total of \$23.8 million was awarded by HCD to eighteen (18) city housing departments and agencies in California. Of that amount, \$19.1 million was disbursed to fifteen (15) of the eighteen (18) awardees.

The SDHC was created by the San Diego City Council in 1979 as a separate entity from City government to increase the efficiency of the affordable housing programs in the city. An appointed board oversees SDHC to reduce bureaucracy, and the San Diego City Council sits as the Housing Authority on major policy and funding issues.

The San Diego Housing Trust Fund (Affordable Housing Fund) was created by the San Diego City Council on April 16, 1990. The Affordable Housing Fund was designed to be a permanent, annually renewable source of funds to help meet the housing assistance needs of very low, low, and median income households in the City of San Diego.

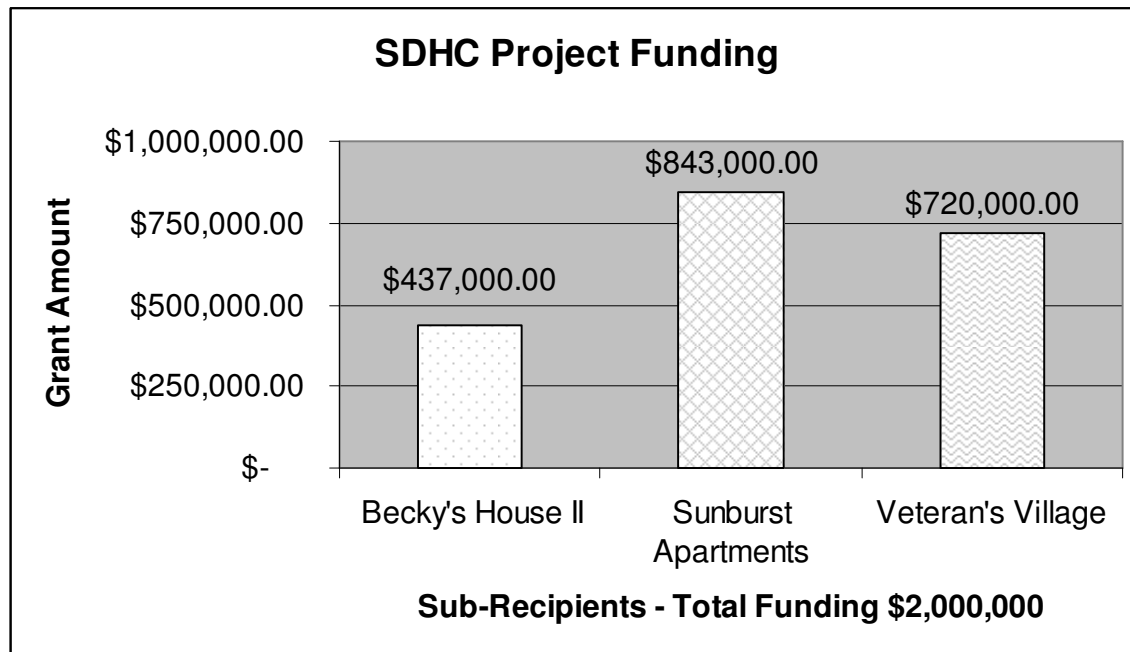
The SDHC was awarded \$2,000,000 from the LHFTP via the HCD and acquired permanent funding from several other sources including:

- San Diego city, county and redevelopment funds;
- State Shelter Emergency Housing and Assistance Program Capital Development (EHAPCD)
- Federal Housing and Urban Development Economic Development Initiative (HUD-EDI)
- Home Investment Partnership Program (HOME)
- Young Women's Christian Association (YWCA) Land Donation

SDHC expends LHFTP funds by contracting with sub-recipient contractors to build housing projects. SDHC expended the \$2,000,000 award on three projects:

1. Becky's House II
2. Sunburst Apartments
3. Veteran's Village

The distribution of the \$2,000,000 award is depicted in the chart below.



The SDHC LHTFP disbursements were used for:

1. **Becky's House II** – Acquisition and development of a 14 unit facility for women victimized by domestic abuse. The YWCA of San Diego County is the owner/sponsor of this new construction development. The 14 two-bedroom units are transitional housing units for families fleeing domestic violence. The rents for five of the units are restricted to extremely low income families at 30 percent of the AMI. The rents for nine of the units are restricted to very-low income families at 50 percent of AMI. All units consist of two bedrooms and one bath approximately 1,014 square feet each. There is a 55 year rent restriction in place for the facility.

2. **Sunburst Apartments** – Acquisition and rehabilitation of a 24 unit facility of permanent supportive housing for formerly homeless youths between the ages 18 and 24. The Lesbian Gay Bi-sexual Transgender Center of San Diego (LGBT) is the owner of this development consisting of 22 studios and two one-bedroom units. The number of tenants in each household is restricted to one. The rent for eight of the units is restricted to extremely low income, at 30 percent of AMI; and the rent for fifteen of the units is restricted to very-low income, at 50 percent of AMI. One unit is for the resident property manager. There is a 55 year rent restriction in place for the development.

3. **Veteran's Village (Phase II)** – Acquisition and development of a 112 bed group residential facility providing housing for homeless military

veterans in the early stages of recovery from substance abuse. The rent for occupancy of 34 beds is restricted to 30 percent of AMI; 62 beds are restricted at 50 percent of AMI; and 16 beds are restricted at 60 percent of AMI. Notwithstanding income levels, tenants pay a nominal monthly rent, which is less than 30 percent of their income and conserve the balance of their income to finance independent living upon graduation from the program. All of the 112 beds including 25 from the affordable HOME Program and 87 from the Housing Trust Fund are rent restricted for 65 years.

The SDHC was selected to be audited, after conducting an analysis and risk assessment of the internal HCD policies, procedures and documentation for administering and overseeing the LHTFP. The analysis provided the objectives and criteria to conduct an audit of the LHTFP grantees to ensure they are in compliance with the requirements of HCD (NOFA) and (SA).

## **Objectives**

The primary areas of review for the LHTFP audit are twofold:

- Expenditure of Funds
- Monitoring

### Expenditure of Funds

In the Expenditure of Funds area there are two objectives:

1. Determine whether LHTFP expenditures were spent by SDHC on allowable eligible activities in accordance with the NOFA and SA; and
2. Perform detailed testing of a representative sample of housing project expenditures from selected grant recipients since the inception of the LHTFP.

### Monitoring

The objective of the audit of the long-term monitoring activities is to determine whether tenants are screened for eligibility on a continuous basis each year by the SDHC monitoring and compliance department.

## **Scope**

The scope of the audit covered the period from July 1, 2004 through December 31, 2009, and included expenditure and monitoring activities of the SDHC related to affordable housing projects funded by the LHTFP.

## **Methodology**

### Expenditure of Funds

To accomplish the audit objectives, key SDHC personnel were interviewed to gain an understanding of policies, procedures and internal controls over expenditures. In addition, the written policies and procedures were reviewed by the auditors and discussed with SDHC staff. A total of 34 draws were scheduled out from the \$2,000,000 of HCD LHTFP funding and matching funds of \$2,060,373 for all the projects. The auditors using a random and judgmental selection process selected a total of seven draws for testing. Testing expenditures helped determine if expenditures were adequately approved and supported and whether purchasing procedures were followed in the procurement of construction work and services. Additionally, the local matching of LHTFP funds and charging of administrative costs on all three projects was reviewed.

In order to accomplish the audit objective for LHTFP expenditures, a representative sample of expenditures from each project was randomly and judgmentally selected and compared to supporting documentation. In addition, the nature and propriety of the SDHC payments and expenditures were compared to supporting documentation. The supporting documentation included such costs as construction labor, materials, engineering reports, and consultant fees.

The total sample of \$1,505,638 represented 37 percent of the HCD LHTFP and matching funds of \$4,060,373. We traced the draw amounts to the check register, wire transfers, and the expenditures to the supporting documents such as invoices, statements, and change orders. All of these transactions were traced to the SDHC general ledger in its Affordable Housing Fund.

In order to ensure and verify that SDHC completed its projects on time in compliance with the SA, the SDHC project completion dates were compared to supporting documentation.

### Monitoring

Long-term monitoring is required in order to ensure that all assisted housing units are restricted for not less than 55 years. To ensure that monitoring oversight activities were performed on the projects that SDHC allocated LHTFP funds, the auditors interviewed their real estate compliance staff, reviewed project inspections, completion and certification supporting documentation, and performed drive by inspections of the projects.

The primary responsibility of the SDHC compliance occupancy monitoring unit is to ensure that property owners are compliant with covenants<sup>1</sup> and regulations pertaining to affordable housing requirements. Monitoring activities ensure

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<sup>1</sup> SDHC-funded properties obligate owners to set aside a specific number and type of rental units for occupancy by very low -, low-, or moderate-income households.

owners comply with financing covenants, such as renting to eligible low-income tenants, keeping units as affordable and maintaining the buildings to meet housing standards. Monitoring includes the review of tenant income and rent ceiling levels, review of property owner records and record keeping, and adherence to housing quality standards as required by the Department of Housing and Urban Development (HUD).

To achieve our audit objective and to gain an understanding of the SDHC monitoring activities, we interviewed the SDHC Senior Program Analyst and staff. To gain an understanding of the procedures with regard to the SDHC monitoring program, we reviewed its policies and procedures and interviewed key staff in its compliance occupancy monitoring unit.

The purpose of our testing was to determine whether SDHC properly certifies compliance and the classification and eligibility of the tenants to occupy the completed housing projects. Eligible tenants are those persons whose aggregate gross annual income does not exceed the respective percentages of AMI in accordance with HUD specifications for the San Diego income limit area based on the FY 2009 Fair Market Rent (FMR) area criteria, as adjusted for family size. In accordance with the Declaration of Covenants, Conditions and Restrictions for each project, each project owner performs monitoring functions and provides SDHC an annual certification with supporting documentation.

We randomly selected a sample of five (5) tenant income certifications from the certification of continuous program compliance reports for Becky's House II and Sunburst Apartments projects. Becky's House II and Sunburst Apartments have a total population of thirteen (13) and twenty-one (21) tenants respectively. We randomly selected a sample of fifteen (15) tenant income certifications from the certification of continuous program compliance reports for Veteran's Village II project. Veteran's Village II has a total population of 112 tenants.

We compared the accuracy of HUD eligibility categories determined from the tenant income certifications to the certification of continuous program compliance reports. SDHC uses the income limits summary from the HUD Income Limits Documentation System. Tenants income from all reportable sources is classified by SDHC into two categories – very low (50 percent) and extremely low (30 percent) of the income limits. The total tested represented 14 percent of the population for all three projects.

We compared the accuracy of the certification of continuous program compliance reports with respect to the tenant's name, number of occupants, annual income and monthly rent reported to the supporting documentation. We determined whether the eligibility of the tenants tested agreed to the certification of continuous program compliance reports.



We reviewed and tested the Tenant Income Certifications for completeness and accuracy in the determination of the tenant's household income level for qualifying for either the 30 percent or 50 percent HUD income limits. However, the tenant's monthly rent is determined only by the owner/agent of the project.

## **Findings**

### Expenditure of Funds

There were no instances of reportable conditions or disallowable expenditures. The SDHC spent LHTFP funds on proper and allowable expenditures in compliance with the NOFA and SA. Internal controls, documentation and oversight activities were adequate over the SDHC expenditures and projects of the LHTFP. All three projects were completed within the allowable time period according to the contract. SDHC met the matching requirements and no administrative costs were incurred on the three projects.

### Monitoring

The SDHC long-term monitoring activities for tenant screening and eligibility for projects funded by the LHTFP are adequate. However, minor clerical and calculation errors were found but they did not adversely affect the outcome of the monitoring activities.

## **Conclusions**

The SDHC expended LHTFP funds in accordance with the requirements of the HCD NOFA and SA.

The SDHC long-term monitoring of tenant screening and eligibility of the projects funded by LHTFP funds is adequate to ensure the projects are complying with the requirements of the HCD NOFA and SA.

## **Recommendations**

### Expenditure of Funds

There are no recommendations in this area.

### Monitoring

There are no recommendations in this area.

## **Compliance**

We conducted this audit in accordance with *Generally Accepted Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## **Views of Responsible Officials**

The responsible officials did not provide any comments.